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SOME PHASES OF THE MINIMUM WAGE—DISCUSSION

A. B. WOLFE.—Professor Le Rossignol comes to a reasonable and satisfactory conclusion with regard to the duty of society persistently to experiment with minimum wage legislation. His conclusion is based partly upon theoretical considerations, partly upon an admirable analysis of the actual working of minimum wage systems. I think, however, that we can not as yet place any great weight on experience. The area of experiment and the period of our experience are both too small to afford ground at all certain for inductive judgment as to the long run and permanent effectiveness of such laws. The idea can not be given a fair try-out by piecemeal legislation or by temporizing wage-boards arriving at compromise awards, but neither will the problem approach solution if left to a neo-classical theory which in effect perpetuates the old *laissez-faire*, do-nothing negativism. If experience is as yet an unsafe guide, and if consequently we have to supplement it by an appeal to deductive analysis, we must in so doing strive to be thoroughly critical of our premises as well as of our logical processes. Nor will cold logic alone get us anywhere. Economists have made no greater mistake than to accept the idea that economic analysis and ethical idealism are to be rigidly divorced. Professor LeRossignol says, as many have said before him, that employers pay on a basis of product, not of needs. It has become a theoretical convention to assume that we can not go beyond this seemingly adamant fact. But after all, the impulse behind economics today is an ethical motive. The problem of wages, and of minimum wages in particular, comes down to the question, Are we, everybody, as consumers going to be willing to pay our way; and if so, can a way be found by which we shall have to pay it, despite our natural propensity to accept a good or a service at a low price because "it gives employment to the poor"? By a little more attention to "needs" and a little less to hypothetical marginal products it is perhaps possible that we might not only arrive at a truer theory of distribution in general than we have yet attained, but that we might also throw needed light on the natural limits to the effectiveness of minimum wage legislation.

The conception of what Professor Le Rossignol calls the normal wage, as well as practically all our analysis of general wages, proceeds upon the assumption of a fixed minimum below which the interest rate and the general level of profits can not fall, without reducing the amount of capital and discouraging business activity. This

is the fundamental objection which Taussig and others raise to minimum wage legislation; and this is the crux of the theory of the dynamics of wages.

The controversy over minimum wage legislation is essentially the same as that between Longe, Thornton, J. S. Mill, and Cairnes fifty or sixty years ago over the validity of the wage-fund doctrine. The real point was then, as it is now, the question of the elasticity or inelasticity of the amount of the total product which labor can secure as wages.

Specifically, the argument is that minimum wage laws can not in the long run accomplish a living wage if employers can not afford to pay it, and that they can not afford to pay it if, after paying interest and rental charges and allowing themselves a fair rate of profit, there is not enough left over for a living wage. The residual theory of distribution was long ago thrown out of the door, but it is now climbing in again through the back window.

Personally, I am unable to subscribe to any residual theory, or to the idea that the supply of any productive factor, whether capital, management, or labor, rests upon such motives that the general reward given to it at the present necessarily represents the minimum necessary to its continued maintenance. That the rewards of capitalists and entrepreneurs are so low that an increase of all wages to a decent standard-of-living level will impair savings and discourage business is largely an assumption. As a fact it has not been established.

In the first place, in estimating the minimum necessary to give a fair return on investment, little attention is given to the amount of *actual* investment as against overcapitalization. It is easy for a concern to cry out the impossibility of paying a living wage when it is trying to pay dividends on stock which is 50 per cent pure water. It would be exceedingly enlightening could we know the actual money investment represented by American industries, large and small, and compare it with the paper capitalization upon which dividends are being paid.

In the second place, and most fundamental of all, is the *probability that the interest rate can be lowered greatly without seriously impairing the amount of savings*. We need not subscribe to Clark's contention that lowering the interest rate will increase saving.¹ That seems more than doubtful. Taussig, on the other hand, argues that because the interest rate has been fairly constant since the middle of the eighteenth century, "it is perhaps not an unjustified inference that

¹ *Essentials of Economic Theory*, pp. 339 ff.

there is a large volume of savings at the margin." He admits that the rate in the future is likely to be affected by the very fact of large accumulation, but thinks the experience of the last few generations indicates that the rate will not sink below about 2 per cent.²

This argument from experience is inadequate and unconvincing. It does not take sufficient account of the fact that the last 150 years have been a period of marvelous industrial and territorial expansion, and that only this expansion, world-wide in extent, has kept the demand for capital up to a point which could maintain the interest rate at 2 or 3 per cent in the face of unparalleled increase in savings. Even so, it may not be amiss to point out how strenuous have been the efforts of investors to find outlet for their surplus funds in foreign countries, efforts which certainly played no secondary rôle in the causation of the present world war.

Moreover, there is insufficient consideration of the influence of the concentration of wealth, and the fact that ever larger and larger amounts are saved and seek investment simply because their owners do not know what else to do with them. Nor is account taken of the possible influence of the psychology of habit. It is almost second nature with the business man, and with many others, to save, and we have no evidence which accurately measures the effect of changes in the interest rate on his saving. There *may* be a large volume of savings on the margin, but the volume of intramarginal saving, and the amount of savers' surplus, must be incomparably larger. It is at least possible that by lowering the interest rate, and paying higher wages, we may slice off for society a considerable part of the immense lump of savers' surplus, and at the same time secure addition to savings from workingmen's families now too poor to save without materially reducing the total amount of savings. The idea that the interest rate can not be lowered without reducing capital-equipment and therefore lowering the demand for labor, needs a critical re-analysis. For the great bulk of savings, it is probable that the supply curve would show great elasticity, and consequently that a material lowering of the interest rate may take place without cutting off more than a negligible quantity of capital.

Turning now to labor supply, the idea that standard minimum wages would stimulate further overgrowth of population is not well founded. One way to reduce the birth rate is to raise the standard of living, and the only way to do that is to raise wages. Taussig, urging on the one hand the "numbers" objection, implies that the

² *Principles*, Vol. II, pp. 26, 27.

minimum for women should not be based on what it costs a woman to live alone, in lodgings, but what it costs a girl to live at home with her parents.³ But if you wish to reduce the marriage rate, give young women economic independence, so that they will not be tempted to marry simply to escape long hours of hard work at low pay, which has to be turned into the family coffers. Humanitarian consideration aside, the strongest argument for minimum wage legislation for women, is that it will help them toward economic independence, and be one element in the reduction of the birth rate.

The general toning up of industry that would result from universal minimum wage legislation would be noteworthy. If the inefficient entrepreneurs would be eliminated so would the ineffective workers. I am not disposed to waste much sympathy upon either class. The elimination of the inefficient is in line with our traditional emphasis on free competition, and also with the spirit and trend of modern social economics. There is no panacea that can "save" the incompetents except at the expense of the normal people. They are a burden on society and on the producers wherever they are. The real question is whether the inefficient are less burden if we permit them to be employed at low wages and thus tend to fix the wages of the normal workers at the same low level, or whether they would be less burden if we definitely prohibit the employment in industry of any person who can not earn a standard wage, and set such persons aside for special treatment, much as we do backward children and subnormals in the schools.⁴

It is unfair to consider minimum wage legislation as the only line of economic advance. Naturally, it is not a cure-all. Other lines of reform, as Professor LeRossignol has indicated, must go with it—vocational education, restriction of immigration, birth control, segregation of the unemployable. It may be argued that if these were put into operation minimum wage laws would be unnecessary, but the point is that minimum wage standards may do much to render other lines of advance effective. It is sheer short-sightedness to condemn the notion of a "national minimum," simply because it alone cannot be effective in raising the wages of all possible workers. Recognizing that there are limits to productive power and to what we can reasonably demand of life, we should nevertheless see that the conditions

³ "Minimum Wages for Women," *Quarterly Journal of Economics*, May, 1916, pp. 417, 418.

⁴ Cf. Sidney Webb, "The Economic Theory of the Minimum Wage," *Journal of Political Economy*, Dec., 1912.

under which a given piece of legislation has to operate are quite as important as the nature of the legislation itself. If universal minimum wage legislation, effectively enforced, should prove the existence of a labor supply greater than existing capital and natural resources can employ at a living wage, then there would be no other remedy than to reduce the labor supply. But until we put such legislation into operation in all the states, we can not know that the real reason for low wages is a redundant labor supply, and not merely traditional and conventional standards as to what constitutes a fair rate of interest and profit.

If industry, when the disturbing elements of change in our highly dynamic era are somewhat subsided, cannot support its workers at a decent standard of living, one which will keep a real soul and a healthy body together for the normal span of human life, and one which will afford an education somewhere nearly sufficient for the development of real citizens for a real democracy, then it stands condemned at the bar of ethics, for in spite of all the material advance we have made, we shall have demonstrated our failure to bring a certain and lasting improvement in the life of the masses, and to found a political and social democracy upon a vast, but hollow, material productive capacity.

ROBERT L. HALE.—In discussing the question of wages regulated by law, we are often brought to face the question, already suggested by one of the speakers this morning, of what we are going to do in case the workmen refuse to obey an adverse ruling. Are we going to force them to continue working against their wills? Is not such compulsory work slavery? The question seems to imply a general principle which many of us have in the backs of our minds and which may as well be brought out into the open—a principle, namely, that there is some sort of an essential difference between a law which compels one to do some positive work and a law which merely forbids one to do some definite act. Yet a little reflection shows that there is no such real difference. To be prohibited from doing some things—such as eating—would be far more irksome than to be ordered to do other things. To be prohibited from eating except on condition of performing certain work is in practice equivalent to being ordered more directly to do that work. That is precisely what our law of property does to the propertyless man; it forbids him to do those things without which he cannot eat, unless he can get the consent of some owners of food or of owners of land on which he can produce his own food, and it does

not order them to give their consent. As a practical matter, he can get their consent only by offering them money; he can get money—being propertyless—only by offering his work to the owners of money. In short, our law orders him to work just as effectively as would any anti-strike law, the penalty for disobedience being starvation; and the choice of work open to him is often very small. True, the right of choice and the right to strike enable him in some cases to better the conditions and the pay of what none the less is in last analysis compulsory work; they do not destroy its compulsory character. To deprive him of the right to strike—and nobody proposes to deprive him of the right of choice—would not turn otherwise free labor into slave labor; it would unless safeguarded deprive him of one means of bettering his conditions and his pay. The real question is, then, whether an anti-strike law can be so safeguarded as to give him all legitimate weapons for improving his lot. Will it injure any *substantial* right he now enjoys? His right to freedom is only a theoretical right, except in so far as it bears on the actual conditions of his employment. If his actual conditions will be as good under compulsory wage-adjustment, then to forbid him to strike under pain of some adequate penalty—it need not be imprisonment—does him no substantial injury *if an adequate substitute can be found in the form of a wage board*. Whether it can be found or not is a question I cannot discuss now.

It must be admitted that the object of compulsory arbitration is to prevent the workers getting *all* that they might conceivably get if allowed to strike at any time; for an actual tie-up of the railroads could always be avoided by granting the men's demands, and if there is no objection to granting them there can be no object in forbidding a strike by law. It may be asked, if the men are engaged in compulsory labor, Why not permit them to free themselves by any means in their power? The answer is that while the system of property does compel the propertyless to work, they might be still worse off without the institution, for it also furnishes the incentive for much useful work on the part of owners, work which increases the supply of commodities and lowers their prices, making even those lowest down in the social system perhaps better off than they would be in the absence of that incentive. We cannot abolish compulsory labor; all we can do is so to modify the property system that the labor will be more equally borne by all classes and the fruits more equally distributed. This can be accomplished by price regulation, by taxation, and in part by wage fixing. There is obviously a limit to the possibility of betterment

through the last named method. If any class of workmen for whose services there is a *continuous* need are permitted to cease work simultaneously, there is obviously a possibility of their getting more, by reason of the temporary exigency, than they can possibly continue to get without injuring other compulsory workers more than they themselves are benefited. Just what the limit is it is difficult to define. If a satisfactory definition can be adopted, and if wage boards can be trusted to ascertain the proper wage as so defined, and if a suitable means of enforcement can be found, then a law forbidding strikes in continuous industries would deprive the workers only of a power to get more than they ought to get under the circumstances. If these conditions cannot be satisfied, an anti-strike law may conceivably deprive them of a power to get what they ought to be allowed to get. It will not in any case transform a previous state of liberty into one of slavery. The difficult thing is to agree upon what they "ought" to be allowed.

JOHN A. RYAN.—The friends of minimum wage legislation ought to be satisfied with Professor Le Rossignol's paper; for it is much more favorable to the project than anything that could have come from a man holding his point of view ten years ago. With some shifting of emphasis, I could accept most of what he says. I am glad that Professor Wolfe has called attention to the similarity between Professor Taussig's criticism of the minimum wage principle and the old wage-fund doctrine. For, if it be true that the minimum wage is likely to prove ineffective simply because the consumers will get most of the benefit of increased production, then the situation would be substantially the same as that imagined by the classical economists: the amount of product available for wage payments would be rather rigidly limited. to prove it.

Perhaps this assumption is correct, but some attempt ought to be made